

PROPOSED RESOLUTION

Resolution W-5200
WD

Agenda ID #17573 (Rev. 1)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5200
September 12, 2019

RESOLUTION

(RES. W-5200) CALIFORNIA-AMERICAN WATER
COMPANY, ORDER MODIFYING THE WATER DIVISION'S
APPROVAL OF CALIFORNIA-AMERICAN WATER
COMPANY'S REQUEST TO COLLECT IN RATES
ANNUALLY FROM \$7,508,800, OR 12.3% OF AUTHORIZED
REVENUES, FOR MONTEREY PIPELINE AND PUMP
STATION PROJECTS TO \$5,256,160 OR 8.6%.

SUMMARY

This Resolution modifies Water Division's approval of California-American Water Company's (Cal-Am) request to recover costs associated with the Monterey Pipeline (I15-400115) and Pump Station (I15-400116) capital projects by adding \$56,217,146 to rate base under the terms and conditions set forth in Advice Letter (AL) 1238, 1238-A. Cal-Am's request in AL 1238, as supplemented, is not in compliance with Cal-Am's application for approval of the Phase 2 Monterey Peninsula Supply Project Decision (D.) 16-09-021 dated September 15, 2016. This Resolution approves 70% of the requested costs to be added to rate base. As a result of the rate base increase, Cal-Am's Monterey District will see its current revenue requirement of \$60,966,700 increase by an estimated \$5,256,160, or 8.6%.

The Commission's modified approval of this request is consistent with the California Public Utilities Commission's (Commission) commitment to rate design that is fair, just, and reasonable in order to provide safe and reliable water supply.

BACKGROUND

Pursuant to Decision (D.) 16-09-021, Cal-Am filed AL 1238 on April 3, 2019 as a Tier 2 filing that is effective after staff approval in which Cal-Am requested to raise the revenue requirement by \$7,924,300 to recover costs associated with the Monterey

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Pipeline and Pump Station capital projects (pipeline and pump station). Cal-Am subsequently filed supplement AL 1238-A on May 3, 2019 to make corrections regarding an earnings test adjustment associated with AL 1236-A. The adjustment reduced the requested revenue requirement amount by \$415,500.

NOTICE AND PROTEST

AL 1238 was served in accordance with Water Industry Rule 4.1 of General Order (GO) 96-B. A copy of AL 1238 was sent to the service list. A notice of the request in AL 1238 was sent to Cal-Am's Monterey customers on their bills before and subsequent to the April 3, 2018 filing date (GO 96-B, Water Industry Rule 3.2).

The Public Advocates Office filed a protest on April 22, 2019 on the grounds that the advice letter violates Commission order, the calculations contain material errors, and the request is unjust and unreasonable.

Numerous customers protests were received on the grounds that the utility did not give proper notice of the advice letter, the request violates statute or Commission order, and the request is unjust and unreasonable.

On April 23, 2019, Water Division granted an extension of the protest deadline until May 1, 2019.

No late-filed protests were received.

Cal-Am filed a consolidated response to the protests on May 6, 2019. Cal-Am stated that the Monterey Pump Station and Pipeline were placed into service on January 3, 2019 and January 16, 2019, respectively. D.16-09-021 authorized cost recovery by advice letter once the pipeline and pump station were completed and fully in service, i.e., all portions of the facilities placed into service. Cal-Am provided necessary information as requested by Water Division. Cal-Am also pointed out that its Net-to-Gross (NTG) multiplier in AL 1238-A was consistent with Standard Practice U-27-W. Finally, Cal-Am properly served and noticed affected customers of AL 1238 by direct mailing and a protest period extension was granted by the Commission until May 1, 2019.

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Pursuant to GO 96-B General Rule 7.7.1, the Public Advocates Office sent a request (Request) for Commission Review by Resolution of Water Division's disposition of AL 1238/1238-A on June 17, 2019. The Request states that Water Division's disposition is unlawful because it provided no evidence that, pursuant to D.16-09-021 Ordering Paragraph (OP) 7, Cal-Am presented a comparison of the cost of the pipeline and pump station with and without the Monterey Peninsula Water Supply Project (desalination plant). The Request also states that the pipeline and pump station facilities are not fully used and useful because less than 11% of their design capacity is being utilized.

DISCUSSION

In D.16-09-021 (Phase 2 Decision), issued on September 15, 2016, the Commission did not wish to prejudice the results in Phase 1 of the proceeding. The Phase 2 Decision provided guidance that "processing of the advice letter shall include, but is not limited to, a comparison of the cost of the pipeline and pump station with and without the desalination plant."¹ Subsequently, in D.18-09-017 (Phase 1 Decision), issued on September 13, 2018, the Commission granted Cal-Am a Certificate of Public Conveyance and Necessity (CPCN) for the desalination plant. Likewise, the State Water Resource Control Board (Water Board) has designated the pipeline and pump station projects and the desalination plant to be milestones in its cease and desist order.²

The Commission and the Water Board both agree that the pipeline, pump station, and the desalination plant are prudent and necessary to comply with the Water Board's cease and desist order. It is likewise prudent for the pipeline and pump station to have available capacity for the desalination plant. In light of the Commission granting the desalination plant CPCN to Cal-Am in the Phase 1 Decision, comparing costs of the pipeline and pump station without the desalination plant provides no benefit going forward.

The Public Advocate's Request states that there is no evidence that the pipeline and pump station are sized correctly. Cal-Am is permitted to inject 6,500 gallons per minute (gpm) for Aquifer Storage and Recovery (ASR).³ The pipeline and pump station are

¹ D.16-09-021 at 40-41.

² State Water Resources Control Board – Resolution No.2016-0040.

³ D.16-09-021 at 23.

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projected to provide up to 3,600 gpm of recycled water.⁴ The CPCN in the Phase 1 Decision was granted for a 4,444 gpm desalination plant.⁵ Therefore, the combined total peak demand is 14,544 gpm. The pipeline and pump station are sized appropriately to handle peak demand from ASR, recycled water, and the desalination plant.

Finally, there is the question of whether the facilities are used and useful. The entirety of the pipeline and pump station are in service and being used. As stated previously, it is prudent for the pipeline and pump station to have available capacity for the desalination plant. This was the basis for Water Division's original approval of AL 1238-A. However, upon further review of Conclusions of Law 22 of the Phase 1 Decision, we find that Cal-Am should be authorized to seek recovery of the used and useful portions of the desalination plant and Cal-Am Only Facilities by Tier 2 advice letter.⁶ The peak supply from the desalination plant is 4,444 gpm, or approximately 30% of the total 14,544 peak capacity of the pipeline and pump station, and is expected to begin in 2021.⁷ Therefore, Cal-Am should be authorized to recover 70% of the costs of the pipeline and pump station now by adding \$39,352,002 to rate base and increasing the revenue requirement by approximately \$5,256,160 (8.6%). Pursuant to OP 30 of the Phase 1 Decision, Cal-Am may request to recover the remaining 30% of costs when the desalination plant is used and useful.

The tariff rates from AL 1238-A were made effective June 7, 2019. Cal-Am should file a supplement to remove 30% of the requested costs from rate base, leaving a total of \$39,352,002 to be added to rate base. The rate difference from AL 1238-A and the supplement to this Resolution should be refunded through a one-time meter size based surcredit to customers.

⁴ id at 52.

⁵ 4,444 gpm = 6.4 million gallons per day

⁶ id at 99. The Cal-Am Only Facilities include the pipeline and pump station authorized by D.16-09-021.

⁷ D.18-09-017 at 14

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COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this proposed resolution was mailed to the utility, its service list, and made available for public comment on July 16, 2019.

FINDINGS AND CONCLUSIONS

1. By Advice Letter (AL) 1238 and 1238-A, filed on April 3, 2019 and May 3, 2019, respectively, California-American Water Company (Cal-Am) requested authorization to recover costs associated with the Monterey Pipeline and Pump Station (pipeline and pump station) projects by increasing the authorized revenue requirement by approximately \$7,508,800 or 12.3%.
2. In light of Decision (D.) 18-09-017 issuing a Certificate of Public Convenience and Necessity, comparing the costs of the pipeline and pump station with and without the desalination plant provides no benefit going forward.
3. The pipeline and pump station are sized appropriately for peak demand from Aquifer Storage and Recovery, Groundwater Recharge, and the Monterey Peninsula Water Supply Project (desalination plant).
4. The desalination plant is expected to deliver 4,444 gallons per minute, or 30% of total peak capacity on the pipeline and pump station, after completion in 2021.
5. Seventy percent of the pipeline and pump station are used and useful. Design capacity set aside for the desalination plant is not yet used and useful.
6. Seventy percent of the pipeline and pump station costs (\$39,352,002) should be approved for recovery at this time through the addition to rate base by increasing authorized revenue requirement by \$5,256,160 (8.6%). Cal-Am should file a supplement to Advice Letter 1238-A consistent with this Resolution.

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7. The rate difference between AL 1238-A and the supplement required by this Resolution should be refunded through a one-time meter size based surcredit to customers.
8. Pursuant to Ordering Paragraph 30 of D.18-09-017, Cal-Am may request to recover the remaining 30% of the pipeline and pump station costs (\$16,865,144) in rate base when the desalination plant is used and useful.

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THEREFORE, IT IS ORDERED THAT:

1. California-American Water Company's Advice Letter 1238-A requesting Commission authorization to recover costs associated with the Monterey Pipeline and Pump Station projects by increasing the authorized revenue requirement by approximately \$7,508,800 is modified by this Resolution to \$5,256,160. Seventy percent of the requested costs, or \$39,352,002, is authorized to be added to rate base.
2. California-American Water Company shall refund to customers by filing a Tier 2 Advice Letter no later than thirty days after the supplement to Advice Letter 1238 is filed for the difference in revenue requirement approved by Water Division in Advice Letter 1238-A (\$7,508,800) and the \$5,256,160 revenue requirement authorized by this Resolution over the period beginning June 7, 2019 until the supplement to Advice Letter 1238-A in Ordering Paragraph No. 4 is effective. The rate difference shall be refunded to customers by meter size based surcredit.
3. Water Division's disposition of California-American Water Company's request in Advice Letter 1238, as supplemented, for authorization to recover costs associated with the Monterey Pipeline and Pump Station projects is modified.
4. Under Authority of Public Utilities Code Section 454, California-American Water Company shall file a supplement to Advice Letter No. 1238-A incorporating the modifications in Ordering Paragraph No.1 and to concurrently cancel its presently effective Rate Schedules within five days of the effective date of this Resolution. The effective date of the Rate Schedules shall be the date of the filing.

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This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 12, 2019; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

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CALIFORNIA-AMERICAN WATER COMPANY Advice Letter No. 1238 SERVICE LIST MONTEREY DISTRICT

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Protestants of Advice Letters 1238/1238-A